

AUDITED FINANCIAL STATEMENTS
VILLAGE OF KENT CITY, MICHIGAN

February 28, 2005

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name VILLAGE OF KENT CITY	County KENT
Audit Date 2/28/2005	Opinion Date 5/9/2005	Date Accountant Report Submitted to State: 6/10/2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1930).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) CALVIN MEEUSEN COMPANY, C.P.A., PLLC			
Street Address 1014 S. BEACON BLVD.	City GRAND HAVEN	State MI	ZIP 49417
Accountant Signature 			

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CALVIN MEEUSEN COMPANY, C.P.A., PLLC

CALVIN D. MEEUSEN
CERTIFIED PUBLIC ACCOUNTANT

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT

To the Village Council
Village of Kent City, Michigan

I have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Village of Kent City, Michigan (the Village) as of and for the year ended February 28, 2005, which, collectively, comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Village, as of February 28, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note A, the Village of Kent City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, for the year ended February 28, 2005.

The Management's Discussion and Analysis (identified in the table of contents) is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, I did not audit the information and express no opinion on it.

The accompanying required supplemental information, as identified in the table of contents, are not required parts of the basic financial statements. The required supplemental information is information required by the Governmental Accounting Standards Board. My audit was conducted

for the purpose of forming opinions on the financial statements that collectively comprise the Village of Kent City basic financial statements. The required supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, I have also issued my report dated May 9, 2005, on my consideration of the Village of Kent City, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Calvin Meeusen Company C.P.A. PLLC.

Calvin Meeusen Company, C.P.A., PLLC
Grand Haven, Michigan
May 9, 2005

Village of Kent City

Management's Discussion and Analysis

February 28, 2005

Using this Management's Discussion and Analysis

This annual report is intended to supplement the Village's financial statements for fiscal year ending February 28, 2005. The format of the financial statements has changed due to the implementation of GASB Statement 34 accounting. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Village as a whole and present a longer-term view of the Village's finances. Fund financial statements (i.e. the Statement of Governmental Fund Revenue, Expenditures and changes in Fund Balance and the Governmental Fund Balance Sheet) tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements.

The Village as a Whole

The Village's total net assets are \$2,203,792 as of February 28, 2005. Unrestricted net assets, which represents net assets that can be used to finance day to day operations, comprise 23.8% of that total. The current level of unrestricted net assets for our governmental activities stands at \$523,945 or about 181% of current year operating expenditures.

Government-Wide Financial Analysis:

The first table presented is a summary of the government-wide statement of net assets for the Village. The net assets may be used as an indicator of a government's financial health. As of February 28, 2005, the Village's net assets from governmental activities totaled \$764,301 (35%) and \$1,439,491 (65%) from business-type activities, creating a total government-wide net asset total of \$2,203,792. Since this is the first year the Village has prepared financial statements following GASB 34, comparisons to the prior fiscal year are not available.

In examining the composition of these net assets, the reader should note that governmental activities net assets are primarily invested in capital assets (i.e., bridges, buildings, land, vehicles, equipment, etc.) These assets are used to provide services to the residents and they are not available to pay salaries, operational expenses, or fund capital projects.

Table 1
Village of Kent City Net Assets

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Assets</u>			
Current and other assets	\$ 539,192	\$ 203,722	\$ 742,914
Restricted	-	195,714	195,714

Village of Kent City

Management's Discussion and Analysis

February 28, 2005

Table 1- Village of Kent City Net Assets-continued

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Capital assets, net of accumulated depreciation	<u>240,356</u>	<u>3,200,613</u>	<u>3,440,969</u>
Total	<u>779,548</u>	<u>3,600,049</u>	<u>4,379,597</u>
<u>Liabilities</u>			
Current	15,247	102,558	117,805
Noncurrent	-	<u>2,058,000</u>	<u>2,058,000</u>
Total	<u>15,247</u>	<u>2,160,558</u>	<u>2,175,805</u>
<u>Net Assets</u>			
Capital Assets, Net of Debt	240,356	1,072,613	1,312,969
Restricted	-	195,714	195,714
Unrestricted	<u>523,945</u>	<u>171,164</u>	<u>695,109</u>
Total net assets	<u>\$ 764,301</u>	<u>\$1,439,491</u>	<u>\$2,203,792</u>

The Village's net assets continue to remain healthy. The Village has enough unrestricted cash on hand at the end of the year to fund normal operating expenses in similar circumstances for the next 12 months.

Governmental Activities

Governmental activities increased the Village's net assets by \$70,890, accounting for all of the total growth in net assets. Table 2 depicts this occurrence which will be discussed in more detail later in this analysis.

The Village's total revenues in the General Fund increased by approximately 2.4%, primarily due to an insurance reimbursement included in other income.

Expenses increased modestly during the year except for Legislative and Capital Outlay. Public safety rose substantially due to our contribution for the School Resource Officer Program. This program operated through the Kent County Sheriff's Department on a cost sharing arrangement with Tyrone Township and the Kent City Intermediate School District.

Business-Type Activities

The Village's business-type activities consist of the Sewer Fund. Revenues for the Sewer Fund activities were \$302,815, an increase of 14.9%. The increase is primarily attributable to increased revenues from connection fees. We provide sewage treatment to approximately 99% of village residents through the Village of Kent City wastewater treatment plant.

Village of Kent City

Management's Discussion and Analysis

February 28, 2005

Business-Type Activities-continued

At the end of the fiscal year, the net assets for business-type activities decreased by \$3,734.

The attorney fees for this fiscal year were substantially higher than in the past. This is due to a lawsuit that was filed against the Village in 2003 by a local developer. The dispute was settled by the consent of both parties with each party bearing their own attorney fees. This resulted in amendments being made to the Rate Resolution to establish an indirect connection fee. The plaintiff was reimbursed a portion of direct connection fees in the amount of \$22,000, and received the right to connect to the sanitary sewer at an established indirect connection fee for a 10-year period.

Table 2
Village of Kent City Changes in Net Assets

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Revenues</u>			
Program			
Charges for Services	\$ 19,042	\$ 302,815	\$ 321,857
General			
Property taxes	153,378	-	153,378
State revenue sharing	173,308	-	173,308
Investment earnings	3,782	4,022	7,804
Miscellaneous	10,571	1,798	12,369
Total	<u>360,081</u>	<u>308,635</u>	<u>668,716</u>
<u>Expenses</u>			
Legislative	25,349	-	25,349
General government	57,804	-	57,804
Public safety	45,206	-	45,206
Public works	130,154	-	130,154
Other	30,678	-	30,678
Sewer fund	-	312,369	312,369
Total	<u>289,191</u>	<u>312,369</u>	<u>601,560</u>
Increase (Decrease) in Net Assets	70,890	(3,734)	67,156
Net Assets at March 1, 2004	<u>693,411</u>	<u>1,443,225</u>	<u>2,136,636</u>
Net Assets at February 28, 2005	<u>\$ 764,301</u>	<u>\$1,439,491</u>	<u>\$2,203,792</u>

The Village's Funds

An analysis of the Village's major funds begins on page 12 following the entity wide financial statements. The fund financial statements provide detailed information about the significant funds,

Village of Kent City

Management's Discussion and Analysis

February 28, 2005

The Village's Funds-continued

not the Village as a whole. The Village Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities. The Village's major funds include the General Fund, Major Streets, Local Streets, Sewer Fund and the Downtown Development Authority.

The General Fund pays the Village's general operating expenditures, the most significant of which are General Government and Public Safety.

General Fund Budgetary Highlights

As in past years, the Village Council monitors the budget on a monthly basis. Over the course of the year, the Village Council amended the budget to take into account events during the year. Village expenditures overall stayed below budget, resulting in total expenditures of \$255,732, which was \$77,211 below budget. The General Fund's fund balance decreased from \$155,564 a year ago to \$152,515 at February 28, 2005. The budget amendments were relatively modest in amount, comprising a 3.1% increase to the original budget.

Capital Asset and Debt Administration

At February 28, 2005 the Village had \$3,440,971 (net of accumulated depreciation of \$1,815,055) invested in a broad range of capital assets including land, land improvements, sewer system, buildings and machinery and equipment. We continue to make payments on the two sewer revenue bonds that were issued in 1998 for wastewater collection and treatment system improvements in accordance with the Schedule of Indebtedness. All of the payments were paid on time.

Economic Factors and Next Year's Budgets and Rates

The Village's budget for the next fiscal year projects property taxes to increase by approximately 10% due to increases in property values and newly assessed residential properties from housing developments. State revenue sharing allocations are a budgetary concern at this time. The State of Michigan has experienced significant budgeting problems and as they look for solutions, state shared revenues may decrease. The amount of revenue sharing is uncertain at this time but is expected to approximate last year's amount. Salaries are normally the largest total expenditure of all funds and represented approximately 19% of this year's total budget. The largest expenditure was Professional Services, primarily from attorney, engineering and consultant fees attributable to the lawsuit. We anticipate that the major expenses for next year will be for sidewalk repair, street repair, purchase of a truck, and replacement of sewer valves. There will be a substantial increase in Public Safety next year due to the School Resource Officer Program. A commercial streetscape project, limited to the Main Street business district, has been discussed for the past two years and continues to be a vision of the future.

Village of Kent City

Management's Discussion and Analysis

February 28, 2005

Contacting the Village's Management

This financial report is intended to provide our citizens, taxpayers, customers and other interested parties with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact us at (616) 678-7232.

Village of Kent City

STATEMENT OF NET ASSETS

February 28, 2005

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Cash	\$ 499,705	183,572	683,277
Cash-restricted	-	195,714	195,714
Receivables			
Taxes	8,311	20,150	28,461
Accounts	560	-	560
Due from state	30,616	-	30,616
Capital assets, net	<u>240,356</u>	<u>3,200,613</u>	<u>3,440,969</u>
Total assets	<u>779,548</u>	<u>3,600,049</u>	<u>4,379,597</u>
LIABILITIES			
Accounts payable	15,247	1,470	16,717
Accrued interest	-	31,088	31,088
Non-current liabilities			
Bonds due within one year	-	70,000	70,000
Bonds due in more than one year	<u>-</u>	<u>2,058,000</u>	<u>2,058,000</u>
Total liabilities	<u>15,247</u>	<u>2,160,558</u>	<u>2,175,805</u>
NET ASSETS			
Invested in capital assets			
net of related debt	240,356	1,072,613	1,312,969
Restricted for:			
Debt service	-	195,714	195,714
Unrestricted	<u>523,945</u>	<u>171,164</u>	<u>695,109</u>
Total Net Assets	<u>764,301</u>	<u>1,439,491</u>	<u>2,203,792</u>

The Notes to Financial Statements are an integral part of this statement.

Village of Kent City

STATEMENT OF ACTIVITIES

February 28, 2005

	Program Revenue		Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for services	Governmental activities	Business-type activities	Total
Primary Government					
Governmental activities					
Legislative	25,349	-	(25,349)	-	(25,349)
General government	57,804	6,222	(51,582)	-	(51,582)
Public safety	45,206	1,870	(43,336)	-	(43,336)
Public works	130,154	10,950	(119,204)	-	(119,204)
Other governmental functions	<u>30,678</u>	<u>-</u>	<u>(30,678)</u>	<u>-</u>	<u>(30,678)</u>
Total governmental activities	289,191	19,042	(270,149)	-	(270,149)
Business-type activities					
Sewer	<u>312,369</u>	<u>302,815</u>	<u>-</u>	<u>(9,554)</u>	<u>(9,554)</u>
Total business-type activities	<u>312,369</u>	<u>302,815</u>	<u>-</u>	<u>(9,554)</u>	<u>(9,554)</u>
Total primary government	<u>601,560</u>	<u>321,857</u>	<u>(270,149)</u>	<u>(9,554)</u>	<u>(279,703)</u>
General revenues					
Property taxes			153,378	-	153,378
State revenue sharing			173,308	-	173,308
Unrestricted investment earnings			3,782	4,022	7,804
Miscellaneous			<u>10,571</u>	<u>1,798</u>	<u>12,369</u>
Total general revenue and special items			<u>341,039</u>	<u>5,820</u>	<u>346,859</u>
Change in net assets			70,890	(3,734)	67,156
Net assets at March 1, 2004			<u>693,411</u>	<u>1,443,225</u>	<u>2,136,636</u>
Net assets at February 28, 2005			<u>764,301</u>	<u>1,439,491</u>	<u>2,203,792</u>

The accompanying notes are an integral part of this statement.

Village of Kent City
BALANCE SHEET
GOVERNMENTAL FUNDS

February 28, 2005

ASSETS	General Fund	Major Street	Local Street	Downtown Development Authority	Total Governmental Funds
Cash	\$141,740	\$201,683	\$ 61,909	\$ 94,373	\$ 499,705
Receivables	8,311	-	-	-	8,311
Taxes	560	-	-	-	560
Accounts	17,151	10,645	2,820	-	30,616
Due from state					
Total Assets	\$167,762	\$212,328	\$ 64,729	\$ 94,373	\$ 539,192
LIABILITIES AND FUND EQUITY					
Liabilities:					
Accounts payable	\$ 15,247	\$ -	\$ -	\$ -	\$ 15,247
Total Liabilities	15,247	-	-	-	15,247
Fund equity:					
Fund balance					
Undesignated	152,515	212,328	64,729	94,373	523,945
Total Fund Equity	152,515	212,328	64,729	94,373	523,945
Total Liabilities and Fund Equity	\$167,762	\$212,328	\$ 64,729	\$ 94,373	\$ 539,192

The accompanying notes are an integral part of this statement.

Village of Kent City

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS

February 28, 2005

Total fund balance-governmental funds \$ 523,945

Amounts reported for governmental activities in the Statement of
Net Assets are different because:

Capital assets used in governmental activities are not financial
resources and are not reported in the governmental funds.

Cost of capital assets

\$ 417,949

Accumulated depreciation

(177,593)

240,356

Net assets of governmental activities in the
Statement of Net Assets

\$ 764,301

The accompanying notes are an integral part of this statement.

Village of Kent City

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

Year ended February 28, 2005

	General Fund	Major Streets	Local Streets	Downtown Development Authority	Total Governmental Funds
Revenues:					
Taxes	\$130,109	\$ -	\$ -	\$ 23,269	\$ 153,378
State revenue	95,265	61,921	16,123	-	173,309
Interest and rentals	7,407	1,543	804	392	10,146
Other revenue	19,902	3,346	-	-	23,248
TOTAL REVENUES	252,683	66,810	16,927	23,661	360,081
Expenditures					
Current:					
Legislative					
General government	25,349	-	-	-	25,349
Public safety	54,556	-	-	-	54,556
Public works	44,124	-	-	-	44,124
Other	84,500	21,475	15,036	1,013	122,024
Capital outlay	30,678	-	-	-	30,678
	<u>16,525</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,525</u>
TOTAL EXPENDITURES	255,732	21,475	15,036	1,013	293,256
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(3,049)	45,335	1,891	22,648	66,825
Other financing sources (uses)					
Operating transfers in	-	-	-	-	-
Operating transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(3,049)	45,335	1,891	22,648	66,825
Fund balance - March 1	<u>155,564</u>	<u>166,993</u>	<u>62,838</u>	<u>71,725</u>	<u>457,120</u>
Fund balance - February 28	<u>\$ 152,515</u>	<u>\$ 212,328</u>	<u>\$ 64,729</u>	<u>\$ 94,373</u>	<u>\$ 523,945</u>

The accompanying notes are an integral part of this statement.

Village of Kent City

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

February 28, 2005

Net change in fund balances-total governmental funds: \$ 66,825

Amounts reported for governmental activities in the Statement of Activities
are different because:

Governmental funds report outlays for capital assets as expenditures
in the Statement of Activities; these costs are depreciated over their
estimated useful lives.

Depreciation expense	\$ (12,460)	
Capital outlay	<u>16,525</u>	
		<u>4,065</u>
Change in net assets of governmental activities		\$ <u>70,890</u>

The accompanying notes are an integral part of this statement.

Village of Kent City
STATEMENT OF NET ASSETS
PROPRIETARY FUND

February 28, 2005

ASSETS	Enterprise Fund (Sewer)
Current Assets	
Cash	\$ 183,572
Accounts receivable	<u>20,150</u>
Total current assets	203,722
Restricted Assets - Cash	195,714
Non Current Assets	
Property, plant and equipment	4,838,076
Less accumulated depreciation	<u>(1,637,463)</u>
Capital assets, net	3,200,613
Total Assets	\$3,600,049
LIABILITIES AND NET ASSETS	
Current Liabilities	
Accounts payable	\$ 1,470
Accrued interest	31,088
Revenue bonds payable, due within one year	<u>70,000</u>
Total current liabilities	102,558
Non Current Liabilities	
Revenue bonds payable, less amounts due in one year	<u>2,058,000</u>
Total non current liabilities	2,058,000
Net Assets	
Invested in capital assets, net of related debt	1,072,613
Reserve for revenue bond retirement	195,714
Unreserved	<u>171,164</u>
Total net assets	<u>\$1,439,491</u>

The accompanying notes are an integral part of this statement.

Village of Kent City

STATEMENT OF REVENUES AND EXPENSES
AND CHANGES IN FUND NET ASSETS

PROPRIETARY FUND TYPE
(Sewer Fund)

Year ended February 28, 2005

Operating revenues	
Sewer service charges	\$236,366
	<u>236,366</u>
Operating expenses	
Salaries and wages	14,756
Office supplies and postage	1,506
Repairs and maintenance	5,863
Utilities	8,862
Professional services	79,517
Depreciation	122,393
Insurance	3,131
Miscellaneous	<u>1,590</u>
	<u>237,618</u>
Operating income (loss)	(1,252)
Non operating revenues (expenses)	
Interest income	4,022
Interest expense and fiscal charges	(74,751)
Connection and trunkage fees	64,000
Miscellaneous	<u>4,247</u>
Total non operating revenues (expenses)	<u>(2,482)</u>
Change in net assets	(3,734)
Total net assets - March 1	<u>1,443,225</u>
Total net assets - February 28	<u>\$1,439,491</u>

The accompanying notes are an integral part of this statement.

Village of Kent City
STATEMENT OF CASH FLOWS
Proprietary Funds
For the year ended February 28, 2005

	Enterprise Fund <u>Sewer</u>
Cash Flows From Operating Activities	
Receipts from customers	\$ 240,057
Payments to suppliers	(101,680)
Payments to employees	<u>(14,756)</u>
Net cash provided by operating activities	123,621
Cash Flows From Noncapital Financing Activities	
Operating subsidies and transfers to other funds	-
Cash Flows From Capital and Related Financing Activities	
Trunkage and connection fees	64,000
Proceeds from the sale of fixed assets	-
Purchases of capital assets	-
Principal and interest paid on capital debt	(140,454)
Other receipts	<u>4,247</u>
Net cash (used) by capital and related financing activities	(72,207)
Cash Flows From Investing Activities	
Investment earnings	<u>4,022</u>
Net increase in cash	55,436
Cash at March 1, 2004	<u>323,850</u>
Cash at February 28, 2005	<u><u>379,286</u></u>
Reconciliation of Operating Income to Net Cash	
Provided by Operating Activities	
Operating Income (loss)	(1,252)
Adjustments to Reconcile Operating Income to Net Cash	
Provided by Operating Activities	
Depreciation expense	122,393
Change in Assets and Liabilities:	
Receivables-net	3,691
Accounts and other payables	<u>(1,211)</u>
Net Cash Provided by Operating Activities	<u><u>123,621</u></u>

The Notes to Financial Statements are an integral part of this statement.

Village of Kent City

NOTES TO FINANCIAL STATEMENTS

February 28, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Village of Kent City (Village) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Village's policies are described below.

Effective March 1, 2004, the Village adopted GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 37 and No. 38. These statements primarily establish standards for external financial reporting for state and local governments. Certain significant changes in these statements include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Village's overall financial position and results of operations.
- Government-wide financial statements prepared using full accrual accounting for all of the Village's activities.
- A change in the fund financial statements to focus on the major funds.
- Expansion of footnote disclosures.
- These and other changes are reflected in the accompanying financial statements, including notes to financial statements.

The beginning net assets restated for the effects of implementation of GASB Statement No. 34 are as follows:

Fund balances at March 1, 2004	
governmental funds	\$ 457,120
Capital assets, net	<u>236,291</u>
Restated net assets at March 1, 2004	<u>\$ 693,411</u>

The beginning retained earnings in the Proprietary Funds restated for the effects of implementation of GASB Statement No. 34 are as follows:

Retained earnings at March 1, 2004	<u>Sewer Fund</u>
Reclassification of Contributed Capital	\$ 724,360
Restated retained earnings at March 1, 2004	<u>718,865</u>
	<u>\$1,443,225</u>

Village of Kent City

NOTES TO FINANCIAL STATEMENTS

February 28, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

1. Reporting Entity

The Village of Kent City (Kent County) is a home rule village which operates under an elected village council form of government and provides services to its residents in many areas including public safety, highways and streets, sanitation, parks and recreation, planning and zoning and general administrative services.

2. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and user charges.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirement of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues. The Village does not allocate indirect costs.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

NOTES TO FINANCIAL STATEMENTS-CONTINUED

February 28, 2005

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation-Continued

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures (when applicable), expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, state revenue sharing and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Village reports the following major governmental funds:

The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Streets Special Revenue Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on major streets.

The Local Streets Special Revenue Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on streets classified as local streets.

The Downtown Development Authority (a Component Unit) accounts for specific revenues set aside for the purpose of halting property value deterioration and increase property tax valuation where possible in the Downtown District, eliminate the causes of the deterioration and to provide economic growth pursuant to Act 197 of the Public Acts of Michigan of 1975, as amended. This is reported as a Special Revenue Fund.

The Village reports the following major proprietary fund:

The Sewer Fund accounts for the activities of the sewage collection system. The main source of revenue for the Sewer Fund comes from user charges.

NOTES TO FINANCIAL STATEMENTS-CONTINUED

February 28, 2005

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation-Continued

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this are charges between the Village's sewer function and various other functions of the Village, when applicable. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments, if any. Internally dedicated resources are reported as general revenue rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are charges to customers for sales and services. Operating expenses for the proprietary fund includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

4. Assets, Liabilities, and Net Assets or Equity

a. Deposits and Investments

The Village's cash and cash equivalents are considered to be cash on hand, demand deposits and savings accounts. The Village has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the Village to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers acceptances, state-approved investment pools and certain mutual funds. The Village has adopted an investment policy that is more restrictive than the above. See Note C2.

NOTES TO FINANCIAL STATEMENTS-CONTINUED

February 28, 2005

4. Assets, Liabilities, and Net Assets or Equity-Continued

b. Receivables and Payables

All outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Property taxes attach as an enforceable lien on property and are levied on July 1 and are payable through October 1. The Village bills and collects its own property taxes and does not collect taxes for any other unit of government. Uncollectable real property taxes as of the following March 1 are turned over by the Village to the County for collection. The County advances the Village all these delinquent property taxes. The Village recognizes all available revenue from the current tax levy. Available means collected within the current period or expected to be collected soon enough thereafter to pay liabilities of the current period (60 days). The 2004 state taxable value for real and personal property of the Village totalled approximately \$18,235,000.

Collections of these taxes are accounted for in the General Fund and the Downtown Development Authority. Village property tax revenues are recognized in the period for which they are levied. The Village is permitted by law to levy taxes up to 11.4956 mills per \$1,000 of assessed valuation for general governmental services other than the payment of principal and interest on long-term debt and unlimited millage for the payment of principal and interest on long-term debt subject to a vote of the Village residents. The combined tax rate to finance general government services and payment of principal and interest on long-term debt for the year ended February 28, 2005 was 8.00 mills.

c. Restricted Assets

Certain cash accounts of the Sewer Fund are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants and Village ordinances.

d. Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of four years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Village of Kent City

NOTES TO FINANCIAL STATEMENTS-CONTINUED

February 28, 2005

4. Assets, Liabilities, and Net Assets or Equity-Continued

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements, if any, are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment of the primary government is depreciated using the straight-line method over the following useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	20-55
Infrastructure	20-55
Land improvements	20
Equipment	5-10

e. Compensated Absences

Village employees are granted vacation and sick leave in varying amounts based on length of service. Employees must use earned vacation time in the current year and any unused benefits are forfeited. Upon termination, employees are paid for unused vacation subject to certain limitations. Sick leave is accumulated at the rate of 2 hours for each bi-weekly pay period, subject to certain conditions.

Exempt full-time employees are permitted up to five days of paid sick leave during each year. Paid sick leave benefits may accumulate from year to year to a maximum of 160 hours. Unused benefits are not convertible to cash or other benefits. It is the Village's policy to recognize the cost of sick leave at the time payments are made.

f. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net assets.

g. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTES TO FINANCIAL STATEMENTS-CONTINUED

February 28, 2005

4. Assets, Liabilities, and Net Assets or Equity-Continued

h. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

1. Budgetary Information

The Village follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. On or about December 1, the Village President submits to the Village Council a proposed operating budget for the fiscal year commencing the following March 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to March 1, the budget is legally enacted through passage of a resolution.
- d. Village Management is authorized to transfer budgeted amounts within departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Village Council.
- e. Budgets for the General Fund and special revenue funds are adopted on a basis consistent with generally accepted accounting principles.
- f. Appropriations for all funds lapse at the end of the fiscal year.

Budgeted amounts are as originally adopted, or as amended by the Village Council as of February 28, 2005.

2. Risk Management

The Village of Kent City is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Village has purchased commercial insurance for medical benefits claims and participates in the Michigan Local Unit Self-Insurance Pool for claims relating to general liability, excess liability,

Village of Kent City

NOTES TO FINANCIAL STATEMENTS-CONTINUED

February 28, 2005

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY-CONTINUED

2. Risk Management-continued

auto liability, trunkline liability, errors and omissions, physical damage(equipment, buildings and contents) and workers compensation. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

The local units in the State of Michigan established and created a trust fund, known as the Michigan Local Unit Self-Insurance Pool (Pool) pursuant to the provisions of Act 138 of the Michigan Public Acts of 1982. The Pool is to provide for joint and cooperative action relative to Members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to local units and related local unit activities with the state. The Village of Kent City became a member of the pool in 1990.

NOTE C- DEPOSITS

1. Deposits

All deposits are in several financial institutions and are carried at cost; the deposits are composed of checking accounts and savings accounts.

As of February 28, 2005, the Village's carrying amount of deposits was \$878,991, and the bank balance was \$921,394. Of the bank balance, \$339,163 was covered by federal depository insurance, the remainder being uninsured.

2. Investment Policy

Michigan Compiled Laws, Section 129.91, authorizes the local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptance of United States banks; prime commercial paper; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The investment policy adopted by the Village in accordance with Public Act 20 of 1943 (as amended) authorized investments in demand depository accounts, certificates of deposit, or bonds, securities or other obligations of the United States or an agency or instrumentality of the United States so long as the principal and interest on said bonds, securities or obligations are fully guaranteed by the United States.

Village of Kent City

NOTES TO FINANCIAL STATEMENTS-CONTINUED

February 28, 2005

NOTE C- DEPOSITS-CONTINUED

2. Investment Policy-continued

All financial institutions approved for deposit of Village funds (whether in demand depository accounts, certificates of deposit, or otherwise) must be either state or nationally chartered banks or state or federally chartered savings and loan associations, savings banks, or credit unions whose deposits are insured by an agency of the United States government and that maintains a principal officer or branch office in Michigan under state or federal law. No funds may be invested in any financial institution that is not eligible to be a depository of State funds under any state or federal law or rule.

3. Summary

At year-end, the Village's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-Type Activities	Total Primary Government
Cash and cash equivalents	\$ 499,705	\$ 183,572	\$ 683,277
Restricted assets	-	195,714	195,714
Total	\$ 499,705	\$ 379,286	\$ 878,991

4. Restricted Assets

Cash in the enterprise fund is restricted primarily under a bond ordinance associated with the Series 1998B bonds. Amounts have been restricted for the following purposes at February 28, 2005;

Business-type activities

Sewer Fund

Operations and maintenance (bond ordinance)	\$ 7,411
Bond and Interest Redemption Fund (bond ordinance)	119,792
Bond Reserve Fund (bond ordinance)	49,000
Sewer Replacement (bond ordinance)	3,511
Sludge Reserve (village ordinance)	16,000
	<u>\$ 195,714</u>

After meeting the operation and maintenance and bond and interest redemption requirements of the bond ordinances, the Bond Reserve account shall be funded in the amount of \$7,000 annually until an amount equal to the Bond Reserve Requirement has been accumulated. The Village is required to fund the Sewer Replacement account in an amount of at least \$13,000 each year. The Village funds the Sludge Reserve at \$4,000 each year, to be used for sewer pond cleaning.

Village of Kent City

NOTES TO FINANCIAL STATEMENTS-CONTINUED

February 28, 2005

NOTE D-CAPITAL ASSETS

Capital asset activity for the year ended February 28, 2005 was as follows:

<u>Governmental Activities</u>	<u>Balance</u> <u>March 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>Feb. 28, 2005</u>
Capital assets, not being depreciated:				
Land	\$ 66,894	\$ -	\$ -	\$ 66,894
Total capital assets, not being depreciated	<u>66,894</u>	<u>-</u>	<u>-</u>	<u>66,894</u>
Capital assets, being depreciated:				
Buildings	120,593	4,851	-	125,444
Land improvements	40,966	-	-	40,966
Equipment	160,287	11,674	-	171,961
Office equipment	<u>12,684</u>	<u>-</u>	<u>-</u>	<u>12,684</u>
Total capital assets, being depreciated	334,530	16,525	-	351,055
Less accumulated depreciation for:				
Buildings	28,718	2,390	-	31,108
Land improvements	19,068	1,607	-	20,675
Equipment	114,681	6,159	-	120,840
Office equipment	<u>2,667</u>	<u>2,303</u>	<u>-</u>	<u>4,970</u>
Total accumulated depreciation	<u>165,134</u>	<u>12,459</u>	<u>-</u>	<u>177,593</u>
Total capital assets, being depreciated, net	<u>169,396</u>	<u>4,066</u>	<u>-</u>	<u>173,462</u>
Capital Assets, net	<u>236,290</u>	<u>4,066</u>	<u>-</u>	<u>240,356</u>
<u>Business-Type Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	<u>167,115</u>	<u>-</u>	<u>-</u>	<u>167,115</u>
Total capital assets, not being depreciated	167,115	-	-	167,115
Capital assets being depreciated:				
Sewer systems and lines	4,569,847	-	-	4,569,847
Buildings	20,263	-	-	20,263
Equipment	<u>80,852</u>	<u>-</u>	<u>-</u>	<u>80,852</u>

Village of Kent City

NOTES TO FINANCIAL STATEMENTS-CONTINUED

February 28, 2005

NOTE D-CAPITAL ASSETS - CONTINUED

	Balance March 1, 2004	Additions	Deductions	Balance Feb. 28, 2005
<u>Business-Type Activities: continued</u>				
Total capital assets, being depreciated	<u>4,670,962</u>	<u>-</u>	<u>-</u>	<u>4,670,962</u>
Less accumulated depreciation:				
Sewer systems and lines	1,455,025	113,761	-	1,568,786
Buildings	15,855	51	-	15,906
Equipment	<u>44,189</u>	<u>8,581</u>	<u>-</u>	<u>52,770</u>
Total accumulated depreciation	<u>1,515,069</u>	<u>122,393</u>	<u>-</u>	<u>1,637,462</u>
Total capital assets, being depreciated, net	<u>3,155,893</u>	<u>(122,393)</u>	<u>-</u>	<u>3,033,500</u>
Capital assets, net	<u>3,323,008</u>	<u>(122,393)</u>	<u>-</u>	<u>3,200,615</u>
Government activities:				
Depreciation				
Depreciation expense was charged to functions as follows:				
General government				\$ 3,248
Public safety				1,082
Public works				<u>8,129</u>
				<u>\$12,459</u>
Business-type activities:				
Depreciation				
Depreciation expense was charged to functions as follows:				
Sewer				<u>\$122,393</u>
				<u>\$122,393</u>

Village of Kent City

NOTES TO FINANCIAL STATEMENTS-CONTINUED

February 28, 2005

NOTE E-LONG TERM DEBT

Summary of Changes in Long-Term Liabilities

The following is a summary of long-term liabilities activity for the Village for the year ended February 28, 2005:

	Balance March 1, 2004	Additions	Reductions	Balance Feb. 28, 2005	Due within one year
Business-type activities:					
Revenue bonds	\$2,193,000	-	\$ 65,000	\$2,128,000	\$ 70,000
	<u>\$2,193,000</u>	<u>-</u>	<u>\$ 65,000</u>	<u>\$2,128,000</u>	<u>\$ 70,000</u>

Michigan Municipal Bond Authority-Series A
(Limited Tax General Obligation) issued June 25,
1998. Due in annual installments of \$10,000 to
\$70,000 plus interest at 4.5% through April 1, 2038

\$ 940,000

United States Department of Agriculture - Rural
Development. Series B Refunding Bonds issued
June 25, 1998. Due in annual installments of
\$60,000 to \$80,000 plus interest at 2.25% through
April 1, 2018

\$1,188,000

\$2,128,000

The sewer revenue and revenue refunding bonds were issued pursuant to the Bond Authorizing Ordinance and in accordance with Act 94 of the Public Acts of Michigan of 1933, as amended, for the purpose of funding a portion of the cost of the acquisition and construction of improvements to the public sanitary sewer system. The 1998 Series A sewer revenue bonds (LTGO) and the 1998 Series B Sewer Revenue and Revenue Refunding Bonds were issued pursuant to the Bond Authorizing Ordinance and in accordance with Act 94 of the Public Acts of Michigan of 1933, as amended, for the purpose of funding a portion of the cost of the acquisition and construction of improvements to the public sanitary sewer system and refunding the Sewer System Junior Lien Revenue Bonds, Series II dated July 23, 1980.

The Village was in compliance in all material respects with all the revenue bond ordinances at February 28, 2005.

Village of Kent City

NOTES TO FINANCIAL STATEMENTS-CONTINUED

February 28, 2005

NOTE E-LONG TERM DEBT-CONTINUED

Annual debt service requirements to maturity for debt outstanding as of February 28, 2005 is as follows:

Year ending February 28, 2005	Business-type activities	
	Principal	Interest
2006	\$ 70,000	\$ 74,610
2007	70,000	72,810
2008	72,000	71,010
2009	72,000	69,120
2010	77,000	67,230
2011-2015	\$ 403,000	\$ 305,462
2016-2020	394,000	249,414
2021-2025	170,000	204,300
2026-2030	230,000	160,650
2031-2035	290,000	103,050
2036-2039	<u>280,000</u>	<u>31,500</u>
Total	<u>\$2,128,000</u>	<u>\$1,409,156</u>

NOTE F - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

The Village's actual expenditures and budgeted expenditures have been reported on a functional basis. This is the same basis for which the budgets have been legally adopted and amended.

During the year ended February 28, 2005 the Village incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

	Total Appropriations	Actual Expenditures	Budget Variance
General Fund-Public Safety	\$ 6,435	\$ 6,576	\$ 141

NOTE G - RETIREMENT PLAN

The Village has established a Simple IRA plan for the benefit of its employees. All regular full time employees who have completed at least one full year of service and work at least 1,000 hours during a calendar year are eligible to participate for that year. The Village may make regular contributions equal to 3% of gross pay for eligible employees.

REQUIRED SUPPLEMENTAL INFORMATION

Village of Kent City
Budgetary Comparison Schedule
GENERAL FUND

February 28, 2005

	Budgeted Amounts			Variance with final Budget - Favorable (Unfavorable)
	Original	Final	Actual	
REVENUES				
Taxes	\$ 138,715	\$ 138,715	\$ 130,109	\$ (8,606)
State revenue sharing	96,960	78,114	95,265	17,151
Interest and rentals	5,000	5,000	7,407	2,407
Other revenue	<u>7,300</u>	<u>7,300</u>	<u>19,902</u>	<u>12,602</u>
Total Revenues	247,975	229,129	252,683	23,554
EXPENDITURES				
Legislative				
Governing body				
Salaries and wages	10,000	10,000	8,208	1,792
Transportation	250	250	44	206
Professional and contractual	25,000	25,000	14,044	10,956
Community promotion	2,500	2,500	2,080	420
Workshops and dues	1,500	1,500	923	577
Miscellaneous	<u>100</u>	<u>100</u>	<u>50</u>	<u>50</u>
	39,350	39,350	25,349	14,001
General government				
Elections				
Salaries and wages	500	500	445	55
Operating supplies	500	500	62	438
Printing and publishing	200	200	53	147
Miscellaneous	<u>100</u>	<u>100</u>	<u>22</u>	<u>78</u>
	1,300	1,300	582	718
Clerk				
Salaries and wages	25,690	25,690	24,631	1,059
Office supplies	2,279	2,305	2,154	151
Repairs and maintenance	1,050	1,050	80	970
Professional and contractual	6,518	7,670	7,092	578
Transportation	100	100	35	65
Printing and publishing	1,500	1,500	1,106	394
Utilities	3,066	3,066	2,341	725
Workshops and dues	300	300	251	49
Miscellaneous	<u>100</u>	<u>142</u>	<u>142</u>	<u>-</u>
	40,603	41,823	37,832	3,991
Treasurer				
Salaries and wages	12,000	12,000	12,000	-
Office supplies	1,302	1,317	1,231	86
Repairs and maintenance	600	600	46	554
Professional and contractual	1,420	1,420	751	669

The accompanying notes are an integral part of this statement.

Village of Kent City
Budgetary Comparison Schedule
GENERAL FUND-CONTINUED

February 28, 2005

	Budgeted Amounts		Actual	Variance with final Budget -Favorable (Unfavorable)
	Original	Final		
Treasurer-Cont.				
Transportation	300	300	249	51
Printing and publishing	500	500	358	142
Utilities	1,752	1,752	1,337	415
Workshops and dues	500	500	85	415
Miscellaneous	100	100	85	15
	<u>18,474</u>	<u>18,489</u>	<u>16,142</u>	<u>2,347</u>
Total general government	60,377	61,612	54,556	7,056
Public Safety				
Professional and contractual	6,000	6,000	6,250	(250)
Utilities	435	435	326	109
	<u>6,435</u>	<u>6,435</u>	<u>6,576</u>	<u>(141)</u>
Zoning administrator				
Salaries and wages	24,000	24,000	22,975	1,025
Office supplies	1,844	1,867	1,744	123
Repairs and maintenance	850	850	64	786
Professional and contractual	1,020	1,020	553	467
Utilities	2,482	2,482	1,895	587
Transportation	200	200	-	200
Printing and publishing	200	200	-	200
Workshops	500	500	261	239
Miscellaneous	100	100	30	70
	<u>31,196</u>	<u>31,219</u>	<u>27,522</u>	<u>3,697</u>
Planning commission and board of appeals				
Salaries and wages	5,500	5,500	3,045	2,455
Professional and contractual	10,000	10,000	6,220	3,780
Printing and publishing	1,000	1,000	761	239
Workshops	500	500	-	500
Miscellaneous	100	100	-	100
	<u>17,100</u>	<u>17,100</u>	<u>10,026</u>	<u>7,074</u>
Total public safety	54,731	54,754	44,124	10,630
Public Works				
Department of public works				
Salaries and wages	22,000	26,005	25,604	401
Employee benefits	813	813	813	-
Operating supplies	500	824	824	-

The accompanying notes are an integral part of this statement.

Village of Kent City
Budgetary Comparison Schedule
GENERAL FUND-CONTINUED

February 28, 2005

	<u>Budgeted Amounts</u>		Actual	Variance with final Budget - Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
Public Works-cont.				
Department of public works				
Gasoline	2,100	3,710	3,394	316
Repairs and maintenance	15,000	15,000	12,013	2,987
Outside services	30,000	31,250	30,162	1,088
Utilities	2,400	2,400	1,336	1,064
Workshops	500	500	50	450
Miscellaneous	200	200	100	100
	<u>73,513</u>	<u>80,702</u>	<u>74,296</u>	<u>6,406</u>
Street lighting				
Public utilities	<u>12,000</u>	<u>12,000</u>	<u>10,204</u>	<u>1,796</u>
Total public works	85,513	92,702	84,500	8,202
Other				
Insurance and bonds	10,000	11,260	11,259	1
Health insurance	11,000	11,000	9,271	1,729
Retirement contribution	825	1,265	1,262	3
FICA	<u>9,000</u>	<u>9,000</u>	<u>8,886</u>	<u>114</u>
	30,825	32,525	30,678	1,847
Capital outlay				
General	<u>52,000</u>	<u>52,000</u>	<u>16,525</u>	<u>35,475</u>
TOTAL EXPENDITURES	<u>322,796</u>	<u>332,943</u>	<u>255,732</u>	<u>77,211</u>

The Notes to Financial Statements are an integral part of this statement.

Village of Kent City

BUDGETARY COMPARISON SCHEDULE
MAJOR STREET FUND

Year ended February 28, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with final Budget - Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental revenue				
State shared revenue				
Gas and weight tax	\$ 55,000	\$ 55,000	\$ 61,921	\$ 6,921
Interest earnings	1,200	1,200	1,543	343
Other revenue	-	-	3,346	3,346
TOTAL REVENUES	56,200	56,200	66,810	10,610
Expenditures				
Construction	30,000	30,000	-	30,000
Routine maintenance				
Salaries and wages	3,200	3,200	2,380	820
Repairs and maintenance	2,500	2,506	896	1,610
Contracted services	6,000	8,450	8,447	3
Rentals	4,500	4,500	3,790	710
	16,200	18,656	15,513	3,143
Winter maintenance				
Salaries and wages	4,000	4,000	1,660	2,340
Repairs and maintenance	3,500	3,500	2,562	938
	7,500	7,500	4,222	3,278
Administration, engineering and recordkeeping				
Professional services	3,810	4,740	1,740	3,000
TOTAL EXPENDITURES	57,510	60,896	21,475	39,421
EXCESS OF REVENUES OVER (UNDER)				
EXPENDITURES	(1,310)	(4,696)	45,335	50,031
Other financing sources (uses)				
Operating transfers in (out)	-	-	-	-
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(1,310)	(4,696)	45,335	50,031
Fund balance - March 1	166,993	166,993	166,993	-
Fund balance - February 28	\$ 165,683	\$ 162,297	\$ 212,328	\$ 50,031

The accompanying notes are an integral part of this statement.

Village of Kent City

BUDGETARY COMPARISON SCHEDULE

LOCAL STREET FUND

Year ended February 28, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with final Budget - Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental revenue				
State shared revenue				
Gas and weight tax	\$ 13,000	\$13,000	\$ 16,123	\$ 3,123
Interest earnings	650	650	804	154
Other revenue	-	-	-	-
TOTAL REVENUES	<u>13,650</u>	<u>13,650</u>	<u>16,927</u>	<u>3,277</u>
Expenditures				
Construction	-	-	-	-
Routine maintenance				
Salaries and wages	3,500	3,500	1,330	2,170
Repairs and maintenance	2,000	2,004	601	1,403
Outside services	3,000	6,085	6,083	2
Rentals	<u>2,000</u>	<u>2,855</u>	<u>2,575</u>	<u>280</u>
	10,500	14,444	10,589	3,855
Winter maintenance				
Salaries and wages	1,600	1,600	1,599	1
Repairs and maintenance	<u>2,000</u>	<u>2,000</u>	<u>1,708</u>	<u>292</u>
	3,600	3,600	3,307	293
Administration, engineering and recordkeeping				
Professional services	<u>810</u>	<u>1,140</u>	<u>1,140</u>	<u>-</u>
TOTAL EXPENDITURES	<u>14,910</u>	<u>19,184</u>	<u>15,036</u>	<u>4,148</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(1,260)	(5,534)	1,891	7,425
Other financing sources (uses)				
Operating transfers in (out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(1,260)	(5,534)	1,891	7,425
Fund balance - March 1	<u>62,838</u>	<u>62,838</u>	<u>62,838</u>	<u>-</u>
Fund balance - February 28	<u>\$ 61,578</u>	<u>\$ 57,304</u>	<u>\$ 64,729</u>	<u>\$ 7,425</u>

The accompanying notes are an integral part of this statement.

Village of Kent City
BUDGETARY COMPARISON SCHEDULE
DOWNTOWN DEVELOPMENT AUTHORITY

Year ended February 28, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with final Budget - Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
Revenues				
Property taxes	\$ 20,000	\$ 20,000	\$ 23,269	\$ 3,269
Interest	<u>300</u>	<u>300</u>	<u>392</u>	<u>92</u>
TOTAL REVENUES	20,300	20,300	23,661	3,361
Expenditures				
Administration, engineering and recordkeeping				
Salaries and wages	150	150	103	47
Office supplies	50	50	15	35
Professional services	2,500	2,500	832	1,668
Publication	100	100	-	100
Miscellaneous	<u>100</u>	<u>163</u>	<u>63</u>	<u>100</u>
TOTAL EXPENDITURES	<u>2,900</u>	<u>2,963</u>	<u>1,013</u>	<u>1,950</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	17,400	17,337	22,648	5,311
Other financing sources (uses)				
Operating transfers in (out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	17,400	17,337	22,648	5,311
Fund balance - March 1	<u>71,725</u>	<u>71,725</u>	<u>71,725</u>	<u>-</u>
Fund balance - February 28	<u>\$ 89,125</u>	<u>\$ 89,062</u>	<u>\$ 94,373</u>	<u>\$ 5,311</u>

The accompanying notes are an integral part of this statement.

OTHER SUPPLEMENTAL INFORMATION

Village of Kent City

SCHEDULE OF INDEBTEDNESS

February 28, 2005

Enterprise fund

Sewer Revenue Bonds (LTGO), Series 1998A, issued June 25, 1998

<u>Amount of issue</u>	<u>Interest rate</u>	<u>Date of maturity</u>	<u>2004</u>	<u>2005</u>	<u>Annual interest payable</u>
\$1,260,000	2.25%	4/1/04	55,000	-	-
		4/1/05	60,000	60,000	21,150
		4/1/06	60,000	60,000	19,800
		4/1/07	60,000	60,000	18,450
		4/1/08	60,000	60,000	17,100
		4/1/09	65,000	65,000	15,750
		4/1/10	65,000	65,000	14,288
		4/1/11	65,000	65,000	12,826
		4/1/12	65,000	65,000	11,362
		4/1/13	70,000	70,000	9,900
		4/1/14	70,000	70,000	8,326
		4/1/15	70,000	70,000	6,750
		4/1/16	75,000	75,000	5,176
		4/1/17	75,000	75,000	3,488
		4/1/18	<u>80,000</u>	<u>80,000</u>	<u>1,800</u>
			995,000	940,000	166,166

Sewer Revenue and Revenue Refunding Bonds, Series 1998B, issued June 25, 1998

\$1,240,000	4.5%	4/1/04	10,000	-	-
		4/1/05	10,000	10,000	53,460
		4/1/06	10,000	10,000	53,010
		4/1/07	12,000	12,000	52,560
		4/1/08	12,000	12,000	52,020
		4/1/09	12,000	12,000	51,480
		4/1/10	12,000	12,000	50,940
		4/1/11	14,000	14,000	50,400
		4/1/12	14,000	14,000	49,770
		4/1/13	14,000	14,000	49,140
		4/1/14	14,000	14,000	48,510
		4/1/15	16,000	16,000	47,880
		4/1/16	16,000	16,000	47,160

The accompanying notes are an integral part of this statement.

Village of Kent City

SCHEDULE OF INDEBTEDNESS - CONTINUED

February 28, 2005

Enterprise fund - Continued

Sewer Revenue and Revenue Refunding Bonds, Series 1998B, issued June 25, 1998-Continued

<u>Amount of issue</u>	<u>Interest rate</u>	<u>Date of maturity</u>	<u>2004</u>	<u>2005</u>	<u>Annual interest payable</u>
\$1,240,000	4.5%	4/1/17	16,000	16,000	46,440
		4/1/18	16,000	16,000	45,720
		4/1/19	30,000	30,000	45,000
		4/1/20	30,000	30,000	43,650
		4/1/21	30,000	30,000	42,300
		4/1/22	30,000	30,000	40,950
		4/1/23	40,000	40,000	39,600
		4/1/24	40,000	40,000	37,800
		4/1/25	40,000	40,000	36,000
		4/1/26	40,000	40,000	34,200
		4/1/27	50,000	50,000	32,400
		4/1/28	50,000	50,000	30,150
		4/1/29	50,000	50,000	27,900
		4/1/30	50,000	50,000	25,650
		4/1/31	60,000	60,000	23,400
		4/1/32	60,000	60,000	20,700
		4/1/33	60,000	60,000	18,000
		4/1/34	60,000	60,000	15,300
		4/1/35	70,000	70,000	12,600
		4/1/36	70,000	70,000	9,450
		4/1/37	70,000	70,000	6,300
		4/1/38	<u>70,000</u>	<u>70,000</u>	<u>3,150</u>
			<u>1,198,000</u>	<u>1,188,000</u>	<u>1,242,990</u>
			<u>\$2,193,000</u>	<u>\$2,128,000</u>	<u>\$1,409,156</u>

CALVIN MEEUSEN COMPANY, C.P.A., PLLC

CALVIN D. MEEUSEN
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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Members of the Village Council
Village of Kent City, Michigan

1. I have audited the financial statements of the governmental activities, the business type activities and each major fund of the Village of Kent City as of and for the year ended February 28, 2005, which collectively comprises the Village of Kent City's basic financial statements and have issued my report thereon dated May 9, 2005. I conducted my audit with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

2. As part of obtaining reasonable assurance about whether the Village of Kent City's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

3. In planning and performing my audit, I considered the Village of Kent City's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the Village of Kent City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements. Reportable conditions are described in the accompanying schedule of findings as item 01-1.
4. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may

occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe that the reportable condition described above is not a material weakness.

5. This report is intended for the information of management and the Village Council and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Calvin Meeusen Company C.P.A. PLLC.

Calvin Meeusen Company, C.P.A., PLLC
Grand Haven, Michigan
May 9, 2005

Village of Kent City

SCHEDULE OF FINDINGS

Year ended February 28, 2005

FINDINGS - FINANCIAL STATEMENT AUDIT

REPORTABLE CONDITION

01-1 Cash Receipts and Cash Disbursements

Condition: Controls over cash receipts and disbursements are inadequate because of the lack of segregation of duties due to limited numbers of accounting personnel.

Criteria: Accounting functions should be delegated to different personnel in such a way that one can act as a "check" on another.

Effect: The integrity of the accounting records could be compromised.

Cause: Virtually all of the important accounting functions are done by only one person. The Village of Kent City has traditionally operated very "lean" in the accounting area. The relatively small size of the Village does not justify the hiring of additional accountants.

Recommendation: Management should review the cash receipts and disbursements for reasonableness and completeness on a regular basis. Cash disbursements over a prescribed dollar amount should be reviewed by the Village Council.

Response: Management concurs with the recommendation. This has been done in the past and will continue in the future.

CALVIN MEEUSEN COMPANY, C.P.A., PLLC

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May 9, 2005

Honorable Village Council
Village of Kent City
Kent County, Michigan

In connection with my examination of the financial statements as of February 28, 2005, I have reviewed the accounting policies and procedures employed by the Village and the internal controls in effect. As a result of this review, I wish to make certain comments and recommendations.

I have examined the financial statements of the Village of Kent City for the year ended February 28, 2005, and have issued my report thereon dated May 9, 2005. As part of my examination, I made a study and evaluation of the system of internal accounting control of the Village of Kent City to the extent I considered necessary to evaluate the system as required by generally accepted auditing standards and the standards for financial and compliance audits contained in the U.S. General Accounting Office "Standards for Audit of Governmental Organizations, Programs, Activities and Functions". The purpose of my study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The management of the Village of Kent City is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

My study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, I do not express an opinion on the system of internal accounting control of the Village taken as a whole. However, my study and evaluation disclosed that the internal accounting controls are not adequate to reduce to a relatively low risk that errors or irregularities in amounts that would be material in relation to the financial statements of the Village of Kent City may occur and not be detected within a timely period. This is because of a lack of segregation of duties due to the limited number of accounting personnel. Accordingly, substantive testing has been increased to mitigate this situation.

A budget is required by the State Constitution and state statutes and is the only basis for spending. A local unit cannot overspend its adopted budget unless a change in the budget is approved by the Council. Any amendment to the adopted budget should be made no later than the last day of the fiscal year and any transfer of monies between funds, except those authorized by statute, should be held to an absolute minimum and should be authorized by resolution of the Village and recorded in the Council minutes.

I wish to commend the management of the Village of Kent City for their efforts and cooperation in facilitating the implementation of the GASB 34 accounting pronouncement. This took effect on March 1, 2004 and the results are reflected in the accompanying financial statements and supplemental information for the year ended February 28, 2005.

In conclusion, I wish to state that all of the comments and recommendations are intended to be only of a constructive nature. I am sure they will help you to improve your accounting system and financial operation. I will be available to meet with you at any time in order to discuss the above comments and recommendations.

Respectfully submitted,

 C.P.A. PLLC.
Calvin Meeusen Company, C.P.A., PLLC